

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SAJ-01 INT-08 AGR-20 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01

H-03 PM-07 NSC-07 SS-20 FEA-02 SCI-06 NEA-10 EA-11

EURE-00 STR-08 ACDA-19 L-03 NIC-01 DRC-01 /229 W

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P 281554Z MAR 74

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC PRIORITY 220

C O N F I D E N T I A L SECTION 1 OF 2 VIENNA 2778

FOR EUR/CE - BRUCE FLATIN

E.O. 11652: GDS

TAGS: PGOV, AU

SUBJECT: AUSTRIA: PROBABLE TRENDS FOR SECOND  
QUARTER 1974

I. SUMMARY: INFLATIONARY PRESSURES AND UPCOMING REGIONAL ELECTIONS HAVE GIVEN RISE TO NOTICEABLE INCREASE IN POLITICAL AND SOCIAL TENSIONS IN AUSTRIA. CONSERVATIVE PARTY IS LIKELY TO REGISTER MODERATE GAINS IN THREE PROVINCIAL ELECTIONS THIS YEAR, LARGELY BECAUSE OF EXISTING REGIONAL POLITICAL/ ECONOMIC POWER EQUATIONS. KREISKY GOVERNMENT, WHILE UNDERGOING HIT OF BUFFETING ON INFLATION SPIRAL AND ACCOMPANYING DEMANDS FOR TAX RELIEF, REMAINS FIRMLY IN CONTROL. SHOULD EARLY NATIONAL ELECTIONS BE CALLED, KREISKY APPEARANCE AT TOP OF TICKET SHOULD ASSURE SOCIALIST VICTORY BUT PROBABLY NOT ABSOLUTE MAJORITY IN NATIONAL COUNCIL, AS IS NOW THE CASE. INCREASINGLY SERIOUS ILLNESS OF PRESIDENT JONAS MAY FORCE EARLY PRESIDENTIAL ELECTIONS IN  
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WHICH WINNER WOULD LIKELY BE FOREIGN MINISTER

KIRCHSCHLAEGER, KREISKY'S FAVORITE FOR POST.  
GOA HAS SCHEDULED TOP-LEVEL VISITS TO TWO  
COMMUNISTS GIANTS IN NEXT MONTHS AND IS FOLLOW-  
ING WITH INTEREST AND BIT OF CONCERN RECENT  
CHANGES AND SHIFTS IN EASTERN EUROPEAN REGIMES.  
WARM, FRIENDLY RELATIONS WITH HUNGARY MAY UNDERGO  
SOME COOLING DOWN WHILE RELATIONS WITH CZECHOSLOVAKIA  
AND YUGOSLAVIA ARE LIKE TO REMAIN STRAINED. END  
SUMMARY.

## II. ECONOMIC SCENE

IN SPITE OF WORLD OIL CRISIS, AUSTRIAN ECONOMY  
CONTINUES TO DEMONSTRATE REMARKABLE STRENGTH AND  
RESILIENCY. MEASURES TAKEN BY GOA TO CURTAIL  
CONSUMPTION OF PETROLEUM PRODUCTS FOLLOWING RECENT  
NEAR EAST HOSTILITIES HAVE NOW BEEN REMOVED.  
PRESENT EXPECTATIONS ARE THAT REAL GROWTH IN 1974  
LATE THIS YEAR WILL BE ABOUT 4.5 PERCENT AND PER-  
HAPS HIGHER IN CONTRAST TO BEGINNING OF YEAR  
ESTIMATE OF 3 PERCENT. IN SPITE OF TWO REVALUATIONS  
OF SCHILLING LAST YEAR, EXPORTS REMAIN UNEXPECTEDLY  
STRONG AND NOMINAL INCREASE IN EXPORTS MAY GO AS  
HIGH AS 14 PERCENT THIS YEAR. PRIVATE CONSUMPTION  
AND INVESTMENT ARE ALSO BUOYANT AND THERE IS NO  
SIGNIFICANT UNEMPLOYMENT.

BIGGEST PROBLEM REMAINS INFLATION. IN NEXT  
FEW MONTHS INCREASE IN CONSUMER PRICES EXPECTED  
TO REACH OR EXCEED 10 PERCENT MARK. SOARING PRICES  
ARE BEGINNING TO GENERATE PRESSURE FOR ADDITIONAL  
WAGE INCREASES AND ISOLATED THREATS OF STRIKES.  
FARMERS ARE NOW VOCIFEROUSLY DEMANDING VERY SIZEABLE  
INCREASES IN FOOD PRICES TO COMPENSATE FOR SOARING  
COSTS OF GOODS AND SERVICES TO FARMERS; A MAJOR  
CONFRONTATION BETWEEN FARMERS AND GOVERNMENT IS  
STRONG POSSIBILITY UNLESS MAJOR PORTION OF  
FARMERS' DEMANDS ARE MET.

## III. POLITICAL SCENE

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PARTY CONGRESSES OF TWO MAJOR PARTIES,  
HELD IN FEBRUARY, AVOIDED SERIOUS DISCUSSION  
OF CONTROVERSIAL ISSUE OF PARTY REFORM WHILE  
RECONFIRMING IN OFFICE MOST OF INCUMBENT LEADER-  
SHIPS. IN ADDITION, SOCIALISTS ELEVATED YOUNG  
MAYOR GRATZ AND FINANCE MINISTER ANDROSCH TO  
TOP PARTY LEADERSHIP, MAKING THEM, IN EFFECT,

HEIRS APPARENT TO CHANCELLOR KREISKY. SOCIALISTS ALSO MODIFIED PARTY STATUTES, THUS PAVING WAY FOR KREISKY, PARTY'S BIGGEST POLITICAL ASSET, TO RUN AGAIN AS PARTY TOP CANDIDATE IN NEXT NATIONAL ELECTIONS.

IN WAKE OF CONGRESSES AND RISING INFLATIONARY PRESSURES, TWO MAJOR PARTIES HAVE STEPPED UP MANEUVERING TO ESTABLISH POSITIONS FROM WHICH TO CONTEST ROUND OF UPCOMING PROVINCIAL ELECTIONS: MARCH IN SALZBURG, JUNE IN LOWER AUSTRIA, AND FALL IN VORARLBERG. PEOPLE'S PARTY HAS SEIZED UPON ISSUES OF SPIRALING INFLATION AND DEMANDS FOR IMMEDIATE TAX REFORM TO BELABOR SOCIALIST GOVERNMENT, WHICH IS HAVING BIT OF DIFFICULTY GAINING PUBLIC SUPPORT FOR ITS COUNTER-ARGUMENTS. GIVEN CURRENT AUSTRIAN ECONOMIC AND POLITICAL SCENE, PEOPLE'S PARTY HAS GOOD PROSPECT OF MAKING MODERATE GAINS IN THREE PROVINCIAL CONTESTS THIS YEAR.

SOCIALISTS, HOWEVER, REMAIN FIRMLY IN CONTROL AT FEDERAL LEVEL AND PEOPLE'S PARTY, WHILE POSSESSED OF APPEALING PROVINCIAL LEADERS, HAS NO PERSONALITIES AT APEX TO MATCH KREISKY TEAM. IN VIEW OF EXISTING UNCERTAINTY OVER INFLATION, SOCIALISTS WILL PROBABLY OPT TO FOREGO EARLY NATIONAL ELECTIONS AND INSTEAD HOPE TO HAVE ECONOMY IN GOOD ORDER BY NEXT SUMMER BEFORE REGULARLY SCHEDULED ELECTIONS IN FALL 1975.

ONE MAJOR COMPLICATING FACTOR FOR SOCIALISTS IN THIS POLITICAL EQUATION IS INCREASINGLY  
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SERIOUS ILLNESS OF PRESIDENT JONAS, REPORTEDLY OF CANCER. NATIONAL AND PARTY INTERESTS MAY FORCE KREISKY, COUNTER TO HIS PERSONAL PREDILECTION, TO ATTEMPT TO PERSUADE JONAS TO STEP DOWN. IN A PRESIDENTIAL ELECTION, FOREIGN MINISTER KIRCHSCHLAEGGER, PROBABLE SOCIALIST CANDIDATE, WOULD LIKELY WIN POST IN CONTEST WITH CURRENT LEADING PEOPLE'S PARTY CANDIDATE, FORMER VICE CHANCELLOR WITHALM, IF PEOPLE'S PARTY CHOOSES TO RUN CANDIDATE. SHOULD KIRCHSCHLAEGGER BECOME PRESIDENT, UN PERMREP AMBASSADOR JANKOWITSCH CONSIDERED TO BE LIKELY SUCCESSOR TO FOREIGN OFFICE POST.

IV. FOREIGN AFFAIRS

KREISKY EFFORTS THUS FAR THIS YEAR TO MAKE  
POINTS FOR HIS SOCIALIST GOVERNMENT AND PARTY  
BY FORAYS INTO INTERNATIONAL ARENA HAVE BROUGHT  
MIXED RESULTS. GREAT EXPECTATIONS SURROUNDING  
TOP-LEVEL ECONOMIC DELEGATION TO TEHRAN IN  
FEBRUARY, TO PUT TOGETHER COMPREHENSIVE ECONOMIC  
COOPERATION PROGRAM, FAILED TO MATERIALIZE.  
SALZBURG "CLUB OF ROME" CONFERENCE TURNED OUT TO  
BE A DISAPPOINTMENT FOR KREISKY, IN MAJOR PART  
BECAUSE OF SEVERAL IMPONDERABLE, E.G. TIMING  
OF CONFERENCE, IN ABILITY OF NUMBER OF THIRD-WORLD  
PERSONALITIES TO ATTEND, AND NEBULOUS, UTOPIAN

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C O N F I D E N T I A L SECTION 2 OF 2 VIENNA 2778

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CONCEPTS OF CONFERENCE. ON OTHER HAND,  
KREISKY'S TOUR IN MARCH OF EGYPT, SYRIA  
AND ISRAEL, AS HEAD OF SOCIALIST INTERNATIONAL  
DELEGATION, WENT BETTER THAN EXPECTED AND  
KREISKY AND MEIR WERE RECONCILED IN WAKE OF  
WHAT ISRAELIS NOW TERMED MISUNDERSTANDING  
OVER AUSTRIA'S CLOSING OF SCHOENAU TRANSIT

CAMP FOR SOVIET JEWISH EMIGRES.

FOREIGN MINISTER KIRCHASCHLAEGER WILL TRAVEL TO PEKING AND NEW DELHI IN FIRST HALF OF APRIL, WHILE KREISKY IS PLANNING VISIT TO SOVIET UNION AT END OF MAY. FAR EASTERN TRIP REFLECTS GOA DECISION TO EXPAND RELATIONS WITH PEKING REGIME, PARTICULARLY IN ECONOMIC FIELD. VISIT COULD CONCEIVABLY RESULT IN EFFORT LATER THIS YEAR BY GOA TO REGULARIZE ITS RELATIONS WITH NUMBER OF OTHER COMMUNIST REGIMES IN FAR EAST. KREISKY'S MOSCOW VISIT, WHICH IS RETURN TRIP FOR KOSYGIN STAY IN VIENNA LAST YEAR, WILL  
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ALLOW KREISKY TO TAKE READING ON NUMBER OF MAJOR ISSUES OF CONCERN TO GOA: PROSPECTS FOR CSCE AND MBFR TALKS AND BILATERAL ECONOMIC RELATIONS, PARTICULARLY TRADE AND AUSTRIAN INTERESTS IN INCREASED DELIVERIES OF NATURAL GAS AND OIL FROM SOVIET UNION.

WHILE GOA PLANNING HIGH-LEVEL TALKS WITH TWO DISTANT COMMUNIST GIANTS, ITS RELATIONS WITH ADJOINING COMMUNIST STATES OF CZECHOSLOVAKIA AND YUGOSLAVIA CONTINUE TO BE STRAINED WITH LITTLE LIKELIHOOD OF MAJOR IMPROVEMENT IN NEAR FUTURE. SPORADIC BORDER INCIDENTS AND LONG UNRESOLVED PROPERTY CLAIMS BEDEVIL AUSTRIAN-CZECHOSLOVAK RELATIONS WHILE AUSTRIAN-YUGOSLAV RELATIONS ARE WEIGHED DOWN BY CONTROVERSY OVER RIGHTS OF SOLVENE MINORITY IN SOUTHERN AUSTRIA. BECAUSE SOME ASPECTS OF THESE PROBLEMS HAVE DIRECT POLITICAL IMPACT ON AUSTRIAN DOMESTIC SCENE, GOA LIKELY TO CONINUE TO TRY TO MANAGE BUT NOT RESOLVE THEM UNTIL AFTER NEXT NATIONAL ELECTIONS.

MOST RECENT CHANGES IN HUNGARY SUGGEST TO GOA THAT EXEMPLARY AND MUCH HERALDED CLOSE, FRIENDLY RELATIONS BETWEEN TWO FORMER RULING STATES OF AUSTRO-HUNGARIAN EMPIRE MAY BE IN FOR COOLING DOWN PERIOD.HUMES

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